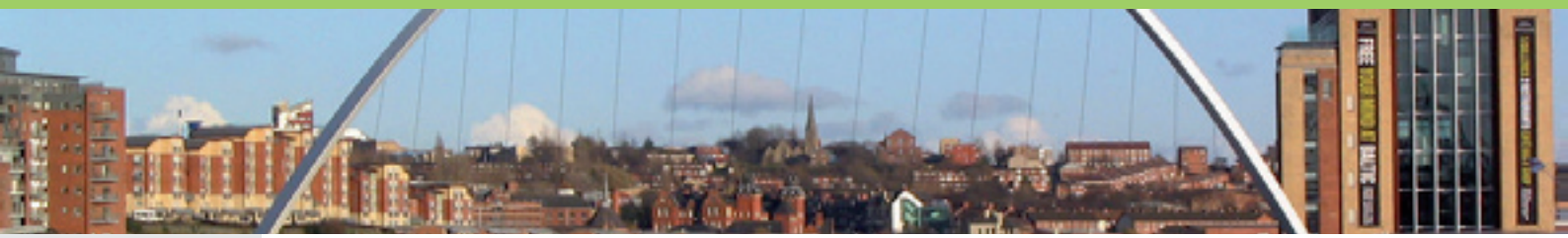

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policy solutions: December 2008

The Future of Regional Development Agencies

Adam Marshall

Executive Summary

This ***Policy Solutions*** note sets out some options for a radical re-structuring of England's Regional Development Agencies after the next General Election. It proposes:

- A single development agency to support growth and jobs in the North of England - where job creation and investment are most needed
- Streamlining or abolishing RDAs in some other parts of the country
- Handing real power to city-regions – giving them room to grow their local economies. After 2011, this should also include housing and training budgets controlled by other quangos, such as the HCA.
- Simplifying the Government's confusing, contested two-part regional growth target, which has made it difficult for RDAs to deliver.

Introduction

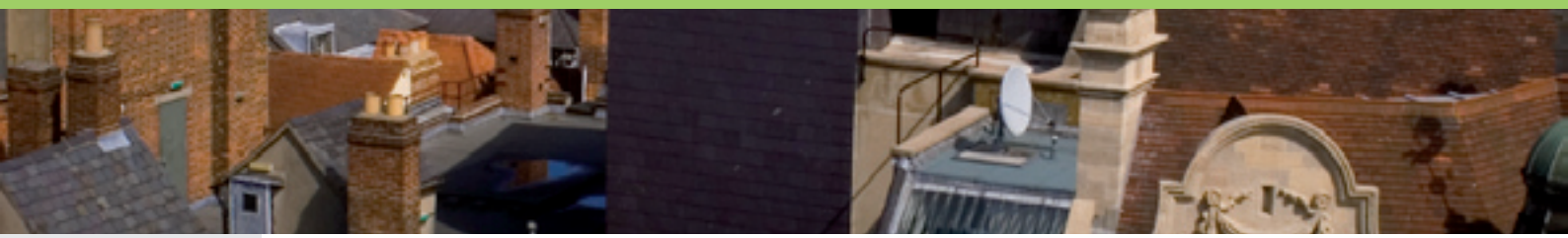
"For me, the role of Regional Development Agencies will be crucial… led by business, working in partnership with local authorities, universities and others, they are the key economic co-ordination body in each region. Not just for the North, but for the country as a whole."

- Peter Mandelson, Secretary of State for Business, Manchester, 23 October 2008

"RDAs are a terrible unit for economic development. In terms of our plans for quangos, you could possibly say we were looking toward restructuring them – in a similar fashion to Anne Boleyn…"

- Eric Pickles, Shadow Secretary of State for Communities and Local Government, Birmingham, 29 September 2008

There are many conflicting visions for regional development in England. Despite the failure of its push for elected regional authorities, the Labour Government has stuck by its vision of a Regional Development Agency (RDA) for every region. And despite scepticism, the Government argues that it can narrow the persistent gap in economic growth rates between the Greater South East and the rest, *and* promote absolute growth in *every* region at the same time. Supporters argue that RDAs are performing a crucial role in helping England's regions to safeguard jobs and to deal with the consequences of recession.



The Conservatives, meanwhile, are sceptical of Labour's regional growth targets, and openly question the effectiveness of RDAs. The shadow cabinet continues to debate the future of RDAs – with some members, such as Eric Pickles, suggesting that local authorities should have the final say over whether to keep or abolish them. Tory shadow business minister Mark Prisk has called regional governance "a muddle" and voiced proposals for substantial change. The Liberal Democrats, while supportive of regional government, have criticised the lack of accountability and inflexibility in the existing system. Adding to the pressure, the House of Commons Business and Enterprise Committee has recently launched a new inquiry into the future of RDAs.

"After the next election, both Labour and the Tories should consider more radical changes to RDAs in order to deliver better outcomes and greater efficiency"

RDAs are not the only quangos under scrutiny. The Homes & Communities Agency (HCA) and the sucessor bodies to the Learning & Skills Council, which control far bigger budgets, are also attracting attention.

So are RDAs still needed to promote economic growth and deal with the consequences of recession and restructuring? Or – once the next general election has passed – is there a case for further reform?

Time for change?

We think that the Conservatives are right to ask tough questions about the future of RDAs, and to consider whether they are needed in every region. Despite the Government's welcome commitment to reform and improve regional governance – as expressed in the 2007 Sub-National Review (SNR) of Economic Development and Regeneration and recently-published implementation plans (CLG & BERR, 2008) – its proposals do not go far enough.

Building on the Centre's work on sub-national governance over the past four years, we argue that development agencies can help provide a focus for economic restructuring and growth in lagging areas, such as the North of England. However, we are not convinced that RDAs in areas like the Greater South East are needed over the long term.

Additionally, in both successful and lagging areas, there is a strong economic rationale for handing powers and budgets from RDAs, the HCA and other quangos downward to sub-regions or city-regions composed of groups of local authorities working together. Transport, training, housing and economic development should be delivered at sub-regional scale, matched up with the footprint of a local economy. The Government has recognised this in its recent commitment to enhanced sub-regional and city-regional collaboration (CLG & BERR, 2008; HM Treasury 2008).

England's economic diversity means that the existing regional template won't work everywhere. The remainder of this note sets out the limitations of the current regional framework in England – and argues that after the next election, both Labour and the Tories should consider more radical changes to RDAs in order to deliver better outcomes and greater efficiency.

Regional Development Agencies: An assessment

A decade after the passage of the Regional Development Agencies Act 1998 – and several years after their creators, such as Ed Balls, have moved on to other jobs within Government – it is appropriate to take a critical look at the performance of England's regional architecture.

The failure of the North East assembly referendum in 2004 marked the end of John Prescott's great experiment with directly elected regional government. It also made it clear that the Government lacked a 'plan B' for the RDAs, which were always intended to be paired with assemblies. As a consequence, RDAs have carried on in political limbo for five years – working to deliver a range of economic growth objectives despite being a remnant of an incomplete tier of government. They also operate alongside nine Government Offices for the Regions established by the Conservatives during the 1990s, leading many to question regional complexity and duplication.

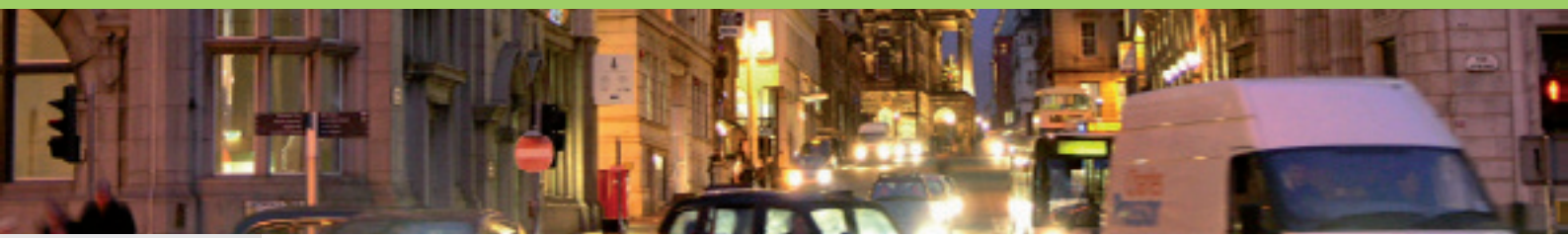
"RDAs have carried on in political limbo for five years – working to deliver a range of economic growth objectives despite being a remnant of an incomplete tier of government"

Regional Development Agencies today

- **Number:** 9. RDAs in each Government Office region.
- **Budget:** over £6.5bn (2008/09- 2010/11), equivalent to approximately £2.2bn pa
- **Key Objective:** improving the economic performance of all English regions and reducing the gap in economic growth rates between the regions (Public Service Agreement Target 7). Additional objectives defined by complex Government tasking framework.
- **Oversight:** BERR, Regional Ministers
- **Scrutiny:** appointed Regional Assemblies phased out 2010. To be replaced with Regional Select Committees in Parliament.

Stakeholders' views of RDAs are mixed. In some areas, such as Yorkshire, local and national politicians have praised the RDA for bringing a higher level of strategic coherence to economic planning and transport investment. In others, including the West Midlands, RDAs have been openly criticised by council leaders for their lack of direct local accountability, the quality of their decision-making, and their project management. Worryingly, many local businesses and residents in all regions have reported poor awareness of RDAs and their activities. The most extreme critics even go so far as to say that RDA budgets are 'wasted' (Taxpayers' Alliance, 2008).

Despite the fact that the RDAs passed National Audit Office inspection (2006-2007) and are meeting most of their annual output targets (BERR, 2008), they have made only minimal progress towards the Government's wider strategic goals of driving up regional growth rates and closing the North-South growth rate gap (HM Treasury *et al*, 2006). Some observers argue that "the division between rich and poor regions is probably remaining constant rather than being significantly eroded" (Burch, Harding & Rees, 2007). And a forthcoming review of RDA spending by consultants PricewaterhouseCoopers is likely to conclude that the effectiveness of RDAs' spending over the years has been mixed.



Even during a decade of benign economic conditions, RDAs do not appear to have presided over a great improvement in regional performance. Compared to the baseline period (1990-2002), only London and the North East showed improved average growth rates between 2003 and 2006. In fact, during the first seven years of the RDAs existence, GVA per capita in the Greater South East grew by 17.6 per cent – compared to just 15.1 per cent in the rest of England, a gap of 2.5 per cent (1996 - 2006).

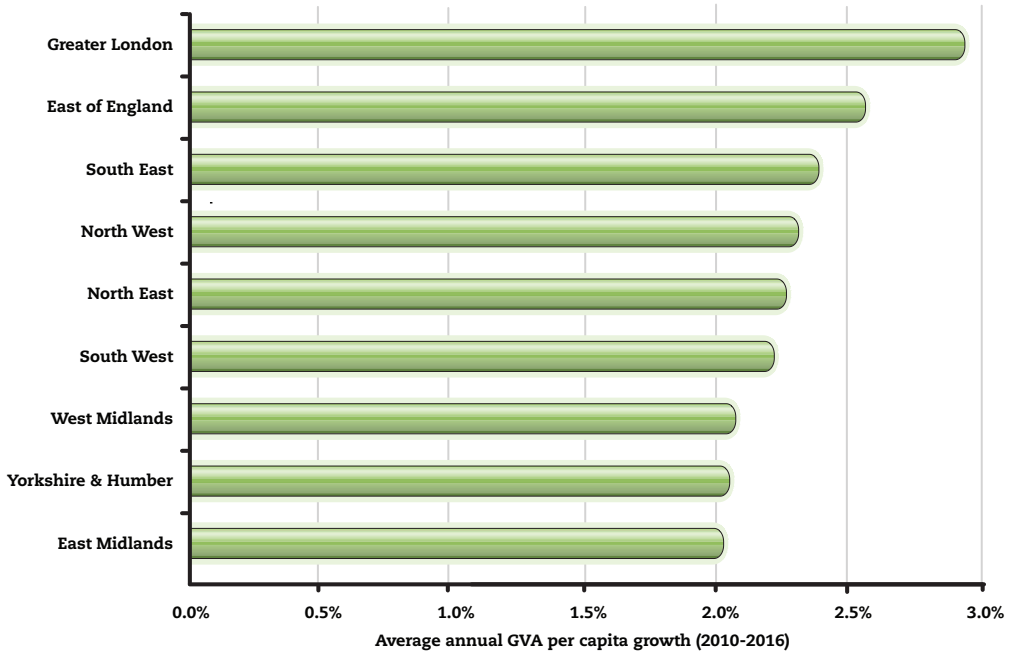
While the gaps in growth rates – the PSA target measure – have narrowed slightly in the recent past, this has been more a reflection of slowing growth in the Greater South East than a step-change in the performance of England's lagging regions.

"It's unrealistic to constantly evaluate the economic performance of individual regions relative to others"

In the medium term, the gap in growth rates between Northern and Southern regions is unlikely to narrow significantly, and may even increase. While the short-term pain of recession will be felt in London and the South East, along with financial centres like Leeds, the South is likely to pull away again when the economy begins to recover.

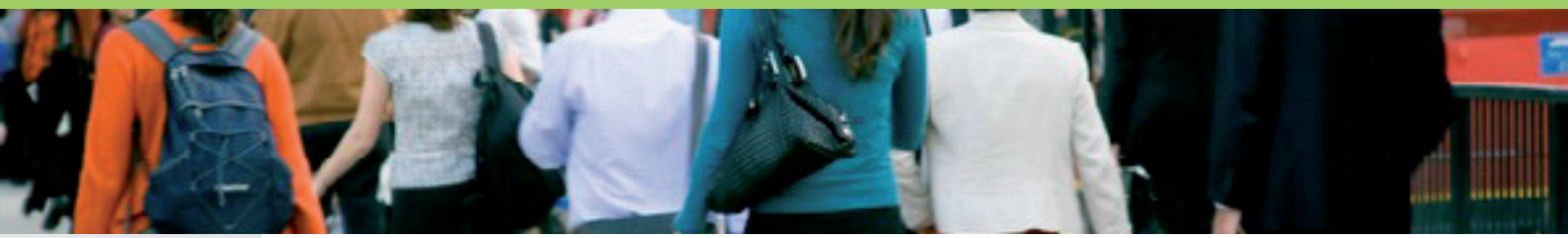
New forecasts commissioned by the Centre for Cities from Oxford Economics suggest that London and the South East are likely to continue to see average annual growth rates that remain higher than those in much of the Midlands and the North for the foreseeable future.

Figure 1: Growth gaps persist (Forecast average annual GVA per capita growth rate, 2010-16)



Source: Oxford Economics

For legitimate reasons, national politicians remain concerned with North-South growth gaps and the inequalities they generate. But – apart from benchmarking to identify who's ahead and who's behind – it's unrealistic to constantly evaluate the economic performance of individual regions relative to others. The strong political focus on growth rate gaps has encouraged unhelpful competition between regions, and has distracted ministers from the most important task: improving the fundamental strength of the Northern and Midlands economy, which would in turn deliver greater prosperity.



Newly-released SNR proposals offer some incremental improvements for regional governance. Government has committed to merging existing regional strategies and moving some delivery responsibilities from RDAs to city-regions and local authorities. Additionally, RDA lines of accountability to Parliament are set to be improved through the creation of Regional Select Committees in the House of Commons (United Kingdom Parliament, 2008).

However, these changes are not enough to deliver a step-change in the performance and perceptions of England's regional architecture. They do not substantively address the five major criticisms levelled at Government and the RDAs: poor accountability, unrealistic expectations, unachievable targets, spatial mismatch, and questionable efficiency.

"The changes promised by the SNR do not go far enough to reduce the complex pressures and expectations placed on RDAs"

- **Accountability:** RDAs are widely perceived to be unaccountable quangos. They have struggled with the inherent tension between their 'business led' remit and calls for greater democratic accountability. 'Business-led' boards are just a fig-leaf for what RDAs really are: public-sector delivery agencies, responsible directly to BERR and to Parliament. The new Regional Select Committees and Local Authority Leaders' Boards will do little to solve these accountability tensions, nor raise low levels of public understanding of what RDAs do.
- **Expectations:** RDAs have been subjected to an unclear tasking framework from the start. Since 2004, the Government has progressively increased their responsibilities so that they now 'coordinate' investment, business support, EU funding, and strategic spatial planning. RDAs have been subjected to byzantine Whitehall oversight, constantly shifting performance management and unrealistic delivery expectations. While the revised RDA tasking framework is a substantial improvement, the changes promised by the SNR do not go far enough to further reduce the complex pressures and expectations placed on RDAs.
- **Targets:** as noted above, BERR has principal responsibility for delivering the Government's Regional Economic Performance PSA target. The divergent aims of the PSA target have created confusion and tension between its two objectives – distracting policy-makers from the critical task of increasing productivity and jobs, especially in regional growth centres like Greater Manchester, Bristol and Leeds. The politics surrounding the target have made it difficult for RDAs to tap and nurture sources of absolute growth.
- **Spatial scale:** regions are often too large to deliver economic development programmes effectively – as they do not match up with real economies, which are sub-regional. The South East region, which includes deprived towns like Hastings, the prosperous Thames Valley, and part of the fast-growing Milton Keynes sub-region, is a case in point. What's more, RDAs' original remit did not take enough account of cities. Regional boundaries can inhibit collaboration between cities like Manchester and Leeds, which look to separate RDAs rather than to each other to drive growth across the North.
- **Efficiency:** Over the years, RDAs have been heavily criticised for staff size, bureaucracy, and cost. Some of this critique is unfair, as RDAs have similar overall administration costs to other non-departmental public bodies. However, RDA administration and salaries are projected to have cost £260m in 2007/08 alone. The SNR has set out plans for RDAs to become 'more strategic' and streamlined, but it is unclear whether this process will deliver substantive efficiency gains. And as the Government searches for ways to pay for its £20bn fiscal stimulus package, RDAs will come under renewed pressure to deliver greater administrative and programme savings.

Options for change

While we are not suggesting a fundamental reform of England's architecture during the current economic crisis, the longer-term arguments for all nine RDAs to remain in their current form are weak. In order to begin reforming England's muddled system of regional governance, all parties should acknowledge two fundamental points:

- First, RDAs are agents of government policy in the English regions – not independent, 'business-led' organisations. RDAs will never have full, direct accountability within their regions, and both Whitehall and town halls need to acknowledge this.
- Second, RDAs' fundamental purpose should be to support growth in lagging areas. Since England's economic geography is complex, we should consider different arrangements for different regions: strong development agencies in areas such as the North, alongside abolition or radical streamlining in the Greater South East.

"Since England's economic geography is complex, we should consider different arrangements for different regions"

We then recommend that both the Government and the Opposition consider a medium-term reform plan to:

1. Merge the three Northern RDAs – and reshape the rest

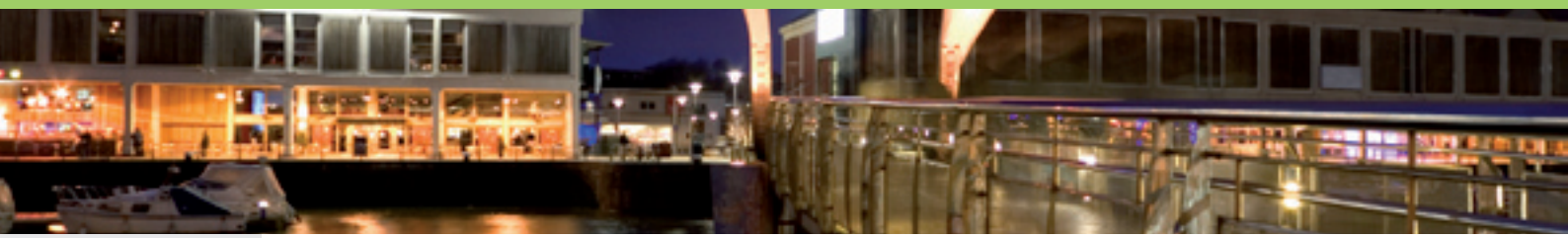
'Variable geography' – with RDAs focused on areas of greatest economic need – would better target limited resources on promoting growth. In areas facing major economic challenges, such as the North of England, RDAs could be merged and strengthened.

A single Northern Development Agency?

In the North of England, there is a strong case for the continued existence of a Government-sponsored agency to drive up economic growth rates – and address the on-going challenges of industrial decline and re-structuring. But maintaining three separate RDAs in the North will make it harder to develop a coherent investment and growth plan for the area. One way forward would be to build on existing collaboration between the three Northern RDAs – and merge them to create a single development agency for the North of England.

A Northern Development Agency would be:

- Directly accountable to Government for economic growth in the North
- Responsible for two clear goals – the promotion of absolute GVA growth and job creation in the North of England
- Better able to devolve budgets to new statutory city-regions in areas such as Greater Manchester, as proposed in the 2008 Pre-Budget Report. Existing RDAs have found delegation and devolution of funding difficult, as they fear losing influence over 'chunks' of their territory. A Northern Development Agency, covering a wider area, would be better placed to devolve control downward to real economies.
- Clearer – with a geography that the public, business and Whitehall can understand
- Less restrictive, as it would remove arbitrary regional boundaries that prevent stronger collaboration between the North's economic engines, Manchester and Leeds
- More efficient, as it would rationalise three agencies into one – and could also take on some of the functions of the three Northern Government Offices. This could result in savings on the £120m pa administration costs of the three separate Northern RDAs.



This approach would also allow the development of arrangements that suit other areas of the country. For example, a single Midlands Development Agency could be investigated. The South West, which faces unique challenges such as peripherality, could choose to maintain its current form. And in the Greater South East, there should be an open debate on whether RDAs should be radically streamlined – or abolished altogether. The Homes and Communities Agency could take the lead on areas like the Thames Gateway, while county councils and sub-regions take on more power.

2. Move real power downward to sub-regional level

"Handing power from regions to city-regions would move both parties' devolution commitments from theory to reality"

Both Labour and the Tories agree that city-regions and sub-regions correspond with 'real economies'. They also agree that economic development policies need to be tailored to fit the specific assets, business stocks, and problems encountered in each sub-region.

We have long argued that economic development resources need to be focused more tightly on the economic 'hotspots' of the North – Greater Manchester and the Leeds City-Region. These areas have the potential to drive up absolute growth rates – and the overall size of the North's economy – over the long term. In the Midlands, a similar case could be made for focusing investment on Birmingham.

Handing power from national and regional bodies to city-regions would move both parties' devolution commitments from theory to reality – and would complement a radical reform of RDAs. Statutory sub-regions, as proposed recently, would be well-placed to make decisions over existing resources for local capital infrastructure, planning, and training – without placing additional strain on the public purse.

But the Government's current plans do not provide for clear delegation to sub-regions, as they have decided not to legislate for this purpose. Formal accountability for funding and delivery will remain with the RDAs. What's more, strategic planning powers – now to be shared between RDAs and Local Authority Leaders Boards in a confusing fudge – remain at the regional level. And the Government has made no moves to devolve adult skills funding, or housing money - now controlled by the huge HCA.

A more radical approach post-2011 would see greater authority over planning, economic development, training and housing funding passed down to sub-regional level. This would match long-term strategic planning decisions up with real economic areas for the first time. And since sub-regions are made up of local authorities, planning decisions taken at this level would have direct democratic accountability through council leaders (Shakespeare, 2008).

3. Replace the Regional Economic Performance PSA target

Finally, it's time to replace PSA7 – the two-part target that has created so much tension and confusion around regional policy. The target is not delivering results, and a rethink is needed.

A simpler, clearer focus on boosting growth rates and promoting job creation in lagging areas – rather than endless comparisons between regions – would help to deliver steady improvements in employment, productivity, and investment in the Midlands and the North. A new RDA tasking framework focused on cities, rather than inter-regional disparities, should accompany the revised target.

Conclusion

The Government has now published its plans for reforming sub-national governance – with the Conservative Party and the BERR Select Committee set to follow suit. Government has also committed to legislation during 2009 to enact its regional and sub-regional proposals.

But as we argue above, incremental changes to RDAs will not deliver radical economic improvements. The Government's regional reforms do not go far enough – and at present, the Tories' and Lib Dems' views remain unresolved.

"Incremental changes to RDAs will not deliver radical economic improvements"

It's time to consider more radical long-term plans to improve regional economies, such as a strong, single development agency for the North of England. England needs fewer, more strategic, and more focused RDAs – better-placed to support economic growth and renewal in our cities and towns.

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Enterprise House
59 - 65 Upper Ground
London SE1 9PQ

t **020 7803 4300**
www.centreforcities.org